Local Government Superannuation Scheme
Pool B

Financial Report

For The Year Ended 30 June 2013

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013

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LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

TRUSTEE'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

In the opinion of the directors of the Trustee of the Local Government Superannuation Scheme Pool B:

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool B (the Scheme) are properly drawn up so as to present fairly the Statement of Net Assets as at 30 June 2013 and the Statement of Changes in Net Assets for the year ended 30 June 2013;

2. The financial statements have been prepared in accordance with the requirements of the Trust Deed and in accordance with the Accounting Standards in Australia and the *Superannuation Industry (Supervision) Act 1993*. Accounting Standards include Australian equivalents to the International Financial Reporting Standards ('A-IFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans;

3. The Scheme has been conducted in accordance with its constituent Trust Deed dated 30 June 1997 as amended and all legislative requirements at all times during the period; and

4. In the Trustee's opinion there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Board of Directors of LGSS Pty Limited (ABN 68 078 003 497).

Signed at Sydney this 30th day of October 2013

Director

Director

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

	Note	2013 $'000	2012 $'000
Investment Revenue			
Interest Revenue		149	495
Dividend Revenue		79	79
Trust Distributions		159,336	72,704
Changes in Net Market Value of Investments	5	243,324	(109,386)
Total Investment Revenue		402,888	(36,108)
Direct Investment Expenses	3(g)	-	(399)
Net Investment Revenue		402,888	(36,507)
Contributions Revenue			
Employer Contributions	6	157,422	162,038
Member Contributions	6	11,505	10,914
Transfers From Other Funds	6	6,263	9,112
Total Contributions Revenue		175,190	182,064
Other Revenue		3	12
Total Revenue		578,081	145,569
Benefits Paid and Expenses			
Benefits Paid		(247,886)	(273,085)
Superannuation Contributions Surcharge Expense		-	101
Administration Expenses	3(g)	(15,200)	(13,243)
Total Benefits Paid and Expenses		(263,086)	(286,227)
Increase/(Decrease) in Net Assets for the Year Before Income Tax		314,995	(140,658)
Income Tax Expense	4(a)	(56,395)	(14,948)
Increase/(Decrease) in Net Assets for the Year		258,600	(155,606)
Net Assets Available to Pay Benefits at the Beginning of the Financial Year		2,737,768	2,893,374
Net Assets Available to Pay Benefits at the End of the Financial Year		2,996,368	2,737,768

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying notes.

STATEMENT OF NET ASSETS AS AT 30 JUNE 2013

	Note	2013 $'000	2012 $'000
Investments			
Unlisted Securities and Unit Trusts	11	2,923,620	2,648,315
Total Investments		2,923,620	2,648,315
Other Assets			
Cash and Cash Equivalents		34,047	14,364
Receivables	12	431	990
Deferred Tax Asset	4(c)	42,883	83,262
Total Other Assets		77,361	98,616
Total Assets		3,000,981	2,746,931
Less Liabilities			
Payables	13	60	258
Current Tax Liability	4(b)	4,553	8,905
Total Liabilities		4,613	9,163
Net Assets Available to Pay Benefits	9	2,996,368	2,737,768

The above Statement of Net Assets should be read in conjunction with the accompanying notes.

1. DESCRIPTION OF THE SCHEME

The Local Government Superannuation Scheme Pool B (the Scheme) consists of local government members and was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 (the Act). LGSS Pty Limited acts as Trustee and holds in trust all assets of the Scheme. During the financial year, LGSS Pty Limited also provided financial planning services for the Scheme.

The Scheme consists of three Divisions. Division B and Division C comprise of both a defined benefit component and a defined contribution component, whilst Division D is a defined benefit scheme. All the divisions are closed to new members, except for members of eligible entities who can transfer their entitlements into the Scheme. The Scheme is a reporting entity for financial reporting purposes.

The Scheme's custodial activities are provided by JP Morgan Chase Bank N.A. (JP Morgan).

Administration of the Scheme was conducted by FuturePlus Financial Services Pty Limited during the year. FuturePlus Financial Services Pty Limited also provides accounting and compliance services for the Scheme.

The principal place of business of the Scheme is:
Level 12
28 Margaret Street
SYDNEY NSW 2000

2. BASIS OF PREPARATION

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans ("AAS 25").

The financial statements have been prepared on the basis required by AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. To the extent that they do not conflict with AAS 25, other Australian Accounting Standards have been applied in the preparation of the financial statements. For the purpose of the preparation of the financial report, the Scheme is a not for profit entity.

The financial statements were authorised for issue by the Directors on 30th October 2013.

Use of Judgments and Estimates

In the application of Accounting Standards, the Directors are required to make judgments, estimates and assumptions about net market values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

2. BASIS OF PREPARATION (continued)

Use of judgments and Estimates (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Standards Early Adopted by the Trustee

The Directors have elected to apply Accounting Standards AASB 10 'Consolidated Financial Statements' and AASB 12 'Disclosure of Interests in Other Entities' for this financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2013. The effect of early adoption of the standard was the non-consolidation of controlling interest in investment entities (as disclosed in Note 16).

Standards and Interpretations Adopted with no Effect on Financial Statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets

Accounting Standards and Interpretations Issued, but Not Yet Effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective:

The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

2. BASIS OF PREPARATION (continued)

Accounting Standards and Interpretations Issued, but Not Yet Effective (continued)

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments and AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'	1 January 2015	30 June 2016
AASB 13 Fair Value Measurement and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-02 ' Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7 and AASB 132)'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)'	1 January 2014	30 June 2015
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013 and the comparative information presented in these financial statements for the year ended 30 June 2012.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of Consolidation

The Scheme has a controlling interest in the Local Government Financial Services Pty Limited and LG Diversified Trust. Consolidated accounts have not been prepared because the net asset values of these investments are not material to the Scheme.

(b) Cash and Cash Equivalents

Cash and cash equivalents includes deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the managers' option and are subject to insignificant risk of changes in value.

(c) Investments

Investments are included in the Statement of Net Assets at net market value as at reporting date. Changes in net market values of assets are recognised in the Statement of Changes in Net Assets in the period in which they occur.

(c) Investments (continued)

Net market values have been determined as follows:

Unlisted Securities	Unlisted securities are stated at the Trustee valuation based on the advice of the Scheme's investment managers. This includes private equity investments which are valued by an independent valuer or the securities investment manager at net market value, as per the guidelines of the Australian Venture Capital Association Limited using the following approaches; discounted cash flow, market comparable and net assets.
Unlisted Unit Trusts	Redemption value of units based on market values of underlying assets as quoted by the trust manager.

(d) Income Tax

<u>Current Tax</u>
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income Tax (continued)

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense in the Statement of Changes in Net Assets.

(e) Benefits Paid and Payable

The Scheme recognises a benefit to be payable to a member when a valid withdrawal notice has been received from the employer sponsor, and it has been approved by the Trustee in accordance with the Trust Deed. Accordingly benefits payable are recognised in the Statement of Net Assets and represent only those benefits where the benefit has been processed but has not yet been paid to members.

(f) Functional and Presentation Currency

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the functional currency). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for capital and is regulated. The Australian dollar is also the Scheme's presentation currency.

(g) Expenses

Administrative expenses, other than the weekly administration fee are charged directly to net assets of the Scheme. Investment expenses are charged directly against investment income.

From July 2011, the Scheme's investment expenses are paid directly out of the Local Investment Fund (LIF). As a result these fees are netted off trust distributions received from LIF and not disclosed as investment expenses in the Statement of Changes in Net Assets of the Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Superannuation Contributions Surcharge

The superannuation contributions surcharge which may be payable by the Scheme under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 is brought to account as a liability and an expense in the year when assessments are received from the Australian Taxation Office. As there is insufficient information to provide a reliable indication of any outstanding surcharge liability, the Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office. All amounts paid are allocated back against member accounts to which the surcharge relates.

The surcharge is no longer levied on surchargable contributions made after 1 July 2005; however assessments relating to the period prior to this date continue to be received.

(i) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i) Where applicable GST incurred by the Scheme that is not recoverable from the Australian Taxation Office has been recognised as part of the expenses to which it applies; and

ii) Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

(j) Receivables

Receivables may include amounts for dividends, trust distributions and interest. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(k) Revenue Recognition

Revenue is measured at the net market value of consideration received or receivable and to the extent of which it is probable that the economic benefits will flow to the Scheme and the income can be reliably measured, revenue is recognised.

The following recognition criteria relates to the different income streams the Scheme has recognised:

<u>Interest Revenue</u>
Interest from fixed interest securities is recognised using the effective interest rate method and in accordance with the terms and conditions which apply to the fixed interest securities. The effective interest rate is the rate that exactly discounts future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. Interest on cash deposits is recognised in accordance with the terms and conditions which apply to the deposits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue Recognition (continued)

Dividend Revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend. If the dividends are not received at balance sheet date, the balance is reflected in the Statement of Net Assets as a receivable.

Trust Distributions

Trust distributions are recognised on a receivable basis on the date the unit value is quoted ex distribution. Where the distribution is not received at balance sheet date, the balance is reflected in the Statement of Net Assets as a receivable.

Changes in Net Market Value of Investments

Changes in the net market value of investments are recognised as revenue and are determined as the difference between the net market value at year end or consideration received (if sold during the year) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

Employer and Member Contributions

Member and employer contributions are recorded on a cash basis in relation to Divisions B, C and D members. This has resulted in contributions outstanding at the reporting date in relation to Divisions B, C and D members for the respective years ended.

Transfers from other funds

Transfers from other funds are recognised on a cash basis. Amounts are recognised where transfer receipts are recovered by the Scheme.

(l) Payables

Payables are recognised when the Scheme becomes obliged to make future payments resulting from the purchase of goods and services. They are recognised at their nominal value which is equivalent to net market value.

(m) Rounding

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

4. INCOME TAX

(a) Income Tax Recognised in Statement of Changes in Net Assets

Tax expenses comprise:

	2013 \$'000	2012 \$'000
Current Tax Expense	16,016	22,469
Deferred Tax Expense/(Benefit)	40,379	(7,521)
Total Income Tax Expense	56,395	14,948

The prima facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:

	2013 \$'000	2012 \$'000
Increase/(Decrease) in Net Assets for the Year Before Income Tax	314,995	(140,658)
Income Tax Expense Calculated at 15%	47,249	(21,099)
Transfers In	(843)	(1,367)
Non-assessable Contributions	(1,726)	(1,637)
Benefit Payments	37,183	40,963
Tax on Grossed Up Imputation and Foreign Tax Credits Income	1,905	1,590
Death and Invalidity Insurance Deductions	(124)	(124)
Contributions Surcharge	-	(15)
Non Deductible Expenditures	63	49
Other Deductible Expenditures	81	-
Non-assessable Pension Related Investment Income	(1,260)	(649)
Non-assessable/Deductible Investment (Revenue)/Losses	(13,649)	7,658
Over Provision Last Year	(21)	(192)
Imputation and Foreign Tax Credits	(12,463)	(10,299)
Income Tax Expense	56,395	14,948

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian tax law. There has been no change in the superannuation tax rate when compared with the previous financial year. The tax rate has been used on the assumption that the Scheme will continue to be a complying scheme for the purposes of the Income Tax Assessment Act 1936, as amended.

(b) Current Tax Balances:

	2013 \$'000	2012 \$'000
Current Tax Liability	4,553	8,905
	4,553	8,905

4. INCOME TAX (continued)

(c) Deferred Tax Balances:

	2013 $'000	2012 $'000
Deferred Tax Asset Comprises:		
Temporary Differences	42,883	83,262
	42,883	83,262

(d) Taxable and Deductible Temporary Differences Arise From the Following:

30 June 2013	Opening Balance $'000	Charged to Income $'000	Closing Balance $'000
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	83,333	(40,441)	42,892
Provisions	(71)	62	(9)
	83,262	(40,379)	42,883

30 June 2012	Opening Balance $'000	Charged to Income $'000	Closing Balance $'000
Net Deferred Tax Asset/(Liability)			
Unrealised Taxable Capital Losses/(Gains)	75,084	8,249	83,333
Provisions	657	(728)	(71)
	75,741	7,521	83,262

5. CHANGES IN NET MARKET VALUE OF INVESTMENTS

30 June 2013	Unrealised at Reporting Date Gain/(Loss) $'000	Realised During the Year Gain/(Loss) $'000	Total $'000
Unlisted Unit Trusts	209,489	11,156	220,645
Unlisted Securities	23,819	-	23,819
Unlisted Property Trusts	(1,140)	-	(1,140)
	232,168	11,156	243,324

5. CHANGES IN NET MARKET VALUE OF INVESTMENTS (continued)

30 June 2012	Unrealised at Reporting Date Gain/(Loss) $'000	Realised During the Year Gain/(Loss) $'000	Total $'000
Unlisted Unit Trusts	(94,268)	(6,134)	(100,402)
Unlisted Securities	(8,446)	-	(8,446)
Unlisted Property Trusts	(538)	-	(538)
	(103,252)	(6,134)	(109,386)

6. SCHEME FUNDING ARRANGEMENTS

For years ended 30 June 2013 and 30 June 2012, member and employer contributions for each of the schemes are determined on the basis described below.

(a) Division B Scheme

Member Contributions: Each member elects to contribute between 1% and 9% of salary (2012: between 1% and 9%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2012/13 employers contributed at the standard contribution rate (1.9 times employee contributions). In 2011/12 employers contributed at the standard contribution rate (1.9 times employee contributions).

(b) Division C Scheme

Member Contributions: In relation to any defined benefit obligations, there are no member contributions. Members may elect to make voluntary contributions to the defined contribution component.

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustees based on actuarial advice. In 2012/13 employers contributed at the "nominal" contribution rate (2.5% of superable salary). In 2011/12 employers contributed at the "nominal" contribution rate (2.5% of Superable Salary).

6. SCHEME FUNDING ARRANGEMENTS (continued)

(c) Division D Scheme

Member Contributions: Each member contributes on a "rate for age" basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of the individual salary (2012: exceed 6%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2012/13 employers contributed at the "nominal" contribution rate (1.64 times employee contributions). In 2011/12 employers contributed at the "nominal" contribution rate (1.64 times employee contributions).

7. REMUNERATION OF AUDITORS

	2013 $	2012 $
Audit of financial reports		
LGSS Pool B Audit – Deloitte Touche Tohmatsu	74,115	76,846
	74,115	76,846

Audit fees are paid by LGSS Pty Limited on behalf of Local Government Superannuation Scheme Pool B.

8. LIABILITY FOR ACCRUED BENEFITS

Accrued benefits have been determined on the basis of the present value of expected future payments which arise from membership of the Scheme at the date of the actuarial review. The value of the accrued benefits was undertaken by the actuary as part of the comprehensive actuarial review, which was performed for the year ended 30 June 2012.

A summary actuarial report is included in the Appendix which sets out the valuation method and significant assumptions made to determine the value of accrued benefits.

	2012 $'000	2009 $'000
Accrued Benefits as at 30 June	3,107,137	2,888,066
Net Assets of the Scheme as at 30 June	2,737,768	2,501,715

The accrued benefits were more than the Net Asset Value as at 30 June 2013. In order to address this shortfall, employers had already increased their contribution rate to the level recommended by the actuary. The financial position of the Scheme is under constant review and employer contribution rates will be adjusted as circumstances determine.

9. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their scheme membership as at reporting date.

	2013 $'000	2012 $'000
As at 30 June	*2,497,276	*2,374,714
Net Assets of the Scheme as at 30 June	**2,996,368	2,737,768

* Excludes benefits for pension where the Actuary has estimated the liability to be $184,283,000 (2012: $151,957,000).

** The 2013 Net Asset Value includes the Operational Risk Financial Requirement Reserve (ORFR) of $7,790,000. The ORFR is a requirement in terms of the Prudential Standard SPS 114. This reserve is used to compensate members for losses resulting from operational risk events as well as any amounts deemed necessary by the Trustee in the interest of the members. As at 30 June 2013, the Scheme has reached the target balance for this reserve, which is 0.25% of the Scheme's Net Asset Value.

10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION

(a) Identification of Related Parties and Directors

The Trustee of the Scheme is LGSS Pty Limited (ABN 68 078 003 497). The following persons held office as Directors of LGSS Pty Limited during the year or since the end of the year and up to the date of this report:

Employer representatives	Employee representatives
Mr S Byrne (Resigned 26 March 2013)	Mr J Beacroft (Resigned 8 October 2013)
Ms B Giegerl OAM (Resigned 26 March 2013)	Mr M O'Connell
Mr L Kelly OAM	Mr I Robertson (Resigned 23 October 2013)
Mr B Miller	Mr G Kelly (Resigned 24 October 2012)
Mrs M Blicavs (Appointed 3 April 2013)	Mr C Peate (Appointed 25 October 2012)
Mr K Rhoades (Appointed 3 April 2013)	Mr J Montague (Appointed 9 October 2013)
	Mrs J Davison (Appointed 30 October 2013)

LGSS Pty Limited is also the Trustee for Local Government Superannuation Scheme – Pool A. LGSS Pty Limited owns 100% of LIF Pty Ltd. The above Directors are also Directors of LIF Pty Limited, a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund ("LIF") and Local Government Property Fund ("LGPF"). The Scheme owns 100% of Local Government Financial Services Pty Limited. J Beacroft, B Giegerl, L Kelly, B Miller and M O'Connell are Directors of Local Government Financial Services Pty Limited.

(b) Other Key Management Personnel

The Chief Executive Officer, Mr P Lambert, the Chief Investment Officer, Mr C Turnbull, and Chief Operating Officer, Mr A Griffin are considered to be members of the key management personnel.

10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION (continued)

(c) Compensation Received

	2013 $	2012 $
Short term Benefits	1,387,128	1,242,997
Post Employment Benefits	110,345	107,859
	1,497,473	1,350,856

The total compensation due and receivable by Directors of LGSS Pty Limited and the key management personnel (for both Pool A and Pool B) during the financial year is payable directly or indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring organisation.

The Scheme also includes the remuneration during the financial year due and receivable by Directors of LGSS Pty Limited, payable directly or indirectly, by Local Government Financial Services Pty Limited.

(d) Transactions Entered into During the Year with Directors and their Related Entities

There have been no transactions between the Directors and their related entities, except for the payment to the Directors for services rendered in relation to their duties as Directors as set out in the Note 10(c), and for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

Contributions and retirement benefits of key management personnel

Certain key management personnel, including the directors of the Trustee paid member contributions into the Scheme. These were in accordance with the normal terms and conditions of the Trust Deed.

No directors have received benefit payments during the year in accordance with the Trust Deed.

(e) Other Related Party Transactions

During the financial year, the Scheme paid $15,088,129 to LGSS Pty Limited for administration and employee entitlements (2012: $14,063,110).

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of $230,963,205 (2012: $278,989,619). During the current year a distribution of $16,890,479 (2012: distribution of $16,689,624) has been made by the Local Government Property Fund to Local Government Superannuation Scheme Pool B.

The Scheme holds 100% of the share capital of Local Government Financial Services Limited. Included in investments is the Scheme's investment in Local Government Financial Services Limited which has been brought to account at the independent valuation amount of $73,045,277 (2012: $46,900,000).

During the year LGFS entered into the following transactions with related entities. LGFS paid $77,518 (2012: $126,290) to LGSS Pty Limited for administration and employee entitlements.

10. KEY MANAGEMENT PERSONNEL REMUNERATION AND RELATED PARTY INFORMATION

(e) Other Related Party Transactions (continued)

Included within the investments of Local Government Superannuation Scheme Pool B are amounts held with Local Investment Fund $2,574,828,686 (2012: $2,278,038,118). Distributions received from Local Investment Fund were $142,412,222 (2012: $53,024,559).

On the 1 July 2005 Hawkesbridge Limited was appointed as Private Equity Manager for the Scheme. As at 30 June 2013 the Scheme has invested a total of $757,263 (2012: $757,263), representing 9.8% (2012: 9.8%) of total capital in Hawkesbridge Limited. C Turnbull, Chief Investment Officer of the Scheme is also one of the directors of Hawkesbridge Limited.

11. INVESTMENTS

Total Investments

	2013 $'000	2012 $'000
Unlisted Securities and Trusts	2,923,620	2,648,315
Total Investments Valued at Net Market Value	2,923,620	2,648,315

	2013 $'000	2012 $'000
Unlisted Securities and Trusts		
Units in Unlisted Australian Securities and Trust	2,692,657	2,369,325
Units in Unlisted Australian Property Funds	230,963	278,990
Total Unlisted Securities and Trusts	2,923,620	2,648,315

12. RECEIVABLES

	2013 $'000	2012 $'000
Other Receivables	431	990
Total Receivables	431	990

13. PAYABLES

	2013 $'000	2012 $'000
Other Payables	60	258
Total Payables	60	258

14. FINANCIAL RISK MANAGEMENT

(a) Financial Instruments Management

The investments of the Scheme (other than cash held for meeting daily administrative and benefit expenses), are invested through the Local Investment Fund (LIF) on behalf of the Trustee by investment managers. The investment managers are required to invest the assets allocated for discrete management in accordance with the terms of a written investment management agreement; or through a pooled vehicle managed on the terms disclosed within the information memorandum. The Trustee of LIF has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Trustee's investment strategy.

JP Morgan acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

(b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

(c) Capital Risk Management

The Trustee of the Scheme holds an RSE license. One of the requirements of the RSE license is that a balance of at least $100,000 must be maintained at all times in the Local Government Super Scheme Pool A's Administration Reserve.

(d) Categories of Financial Instruments

The assets and liabilities of the Scheme are recognised at net market value as at the reporting date. The cost of realisation of investments is minimal and therefore net market value approximates fair value. Changes in net market value are recognised through the Statement of Changes in Net Assets.

14. FINANCIAL RISK MANAGEMENT (continued)

(e) Financial Risk Management Objectives

The Scheme is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, net market value and interest rate risk and price risk), credit risk, liquidity risk and cash flow risk. The Trustee's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Scheme's financial performance and financial position.

It is ultimately the responsibility of the Trustee to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Trustee has the function of overseeing the establishment and maintenance of risk-based systems and controls for the Scheme.

The Trustee has developed, implemented and maintains a Risk Management Strategy (RMS) in respect of its activities as a Trustee and a Risk Management Plan (RMP) for the Scheme.

The RMS and RMP detail some of the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. They address all material risks, financial and non-financial, likely to be faced.. Annually, the Trustee certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and that the Trustee has satisfied itself as to the compliance with the RMS and RMP.

(f) Credit Risk

The Scheme's exposure to credit risk and policies in managing this risk are aligned and are detailed below.

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract resulting in financial loss to the Scheme. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limit are approved;
- ensuring that transactions are undertaken with a number of counterparties; and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance date. This also relates to financial assets carried at amortised cost as they have a short term to maturity.

The Scheme is exposed to credit risk primarily through its investment in LIF and LGPF. LIF and LGPF manage exposure to any individual counterparty or industry by investing the assets of the Scheme in a number of underlying investments trusts. The credit risk is managed not only by diversifying across investment managers but also by the investment managers having diversified portfolios, thus minimising the counterparty risk.

14. FINANCIAL RISK MANAGEMENT (continued)

(f) Credit Risk (continued)

Credit risk arising on investments is mitigated by investing primarily in rated instruments or instruments issued by rated counterparties of credit ratings of at least 'BBB+' or better as determined by Standard and Poor's; unless these securities form part of the profile of specifically permitted market benchmarks within mandated or pooled investments as in the case of Emerging Market Debt, High Yield Bonds or as part of the exposure to Structured Products, Private Equity or Semi Liquid Assets. Regarding the less liquid assets, there is more risk than those securities rated BBB+, however this is managed by external professional investment managers. Their exposure to risk is undertaken when they believe the premium being paid is more than sufficient to cover the default risk on the debt. The risk is further mitigated by the diversification of the exposure across a range of investment managers.

(g) Liquidity Risk

The Scheme's exposure to liquidity risk and policies in managing this risk are aligned and are detailed below.

The Scheme's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. The Scheme allows members to withdraw benefits and it is therefore exposed to the liquidity risk of meeting member's withdrawals at any time. The Scheme is exposed to additional liquidity risk primarily through its underlying investment in LIF and LGPF. LIF's and LGPF's listed securities and unit trust investments are considered to be readily realisable. LIF's and LGPF's financial instruments include investments in unlisted investments, direct property and private equity, which are not traded in an organised market and which generally may be illiquid. As a result, there is a risk that LIF, LGPF, and consequently the Scheme may not be able to liquidate all of these investments at their net market value in order to meet its liquidity requirements

The Scheme's liquidity risk is managed in accordance with the Scheme's investment strategy. The Scheme has a high level of inward cash flows (through new contributions) which provides capacity to manage liquidity risk. The Scheme also manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows. As a further risk mitigation strategy, it is the Trustee's policy that the Scheme cannot have an exposure of less than 70% of assets invested in liquid asset classes at any one point in time. The Scheme's overall strategy to liquidity risk management has not changed from the prior year.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

14. FINANCIAL RISK MANAGEMENT (continued)

(g) Liquidity Risk (continued)

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
2013					
Vested Benefits	2,497,276	-	-	-	2,497,276
Other					
Other Payables	60	-	-	-	60
Current Tax Liability	-	4,553	-	-	4,553
Total	2,497,336	4,553	-	-	2,501,889
2012					
Vested Benefits	2,374,714	-	-	-	2,374,714
Other					
Other Payables	258	-	-	-	258
Current Tax Liability	-	8,905	-	-	8,905
Total	2,374,972	8,905	-	-	2,383,877

(h) Market Risk

The Scheme's exposure to market risk and policies in managing this risk are aligned and are detailed below.

Market risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Scheme's policies and procedures put in place to mitigate the Scheme's exposure to market risk are detailed in the Trustee's investment policies and the RMS and the Scheme's RMP.

Whilst market risk is unavoidable the Scheme will look to minimise the volatility and absolute return fluctuations through thoughtful and well diversified portfolio construction within LIF and LGPF. The relationships that varying asset classes display during volatile market conditions are critical in this construction process.

LIF and LGPF manage this risk via outsourcing its investment management; the investment managers manage the financial risks relating to the operations of LIF and LGPF in accordance with an investment mandate set out in accordance with their constitution and product disclosure statement. The Scheme ensures the operations of LIF and LGPF are in accordance with the Scheme's trust deed and product disclosure statement.

The carrying amounts of financial assets best represent the maximum market risk exposure at the balance sheet date.

14. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

Interest Rate Risk Management
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme, through its investment in LIF and LGPF, is exposed to the interest rate markets. The Scheme invests in these financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Scheme's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates.

These investments involve cash and cash equivalents, longer dated fixed interest instruments and credit instruments. Longer dated fixed interest instruments result in the Scheme having exposure to interest rate movements. The Scheme manages this risk by investing in diverse exposures through both floating interest rate instruments and fixed interest rate instruments. The Trustee monitors its exposures to interest rate risk. The Scheme's overall strategy to interest rate risk management has not changed from the previous year.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 200 basis point increase or decrease is used when reporting interest rate risk internally to the Trustee and represents the Trustee's assessment of the possible change in interest rates.

The following table illustrates the effect on net assets and changes in net assets from possible changes in market risk that were reasonably possible based on the risk the Scheme was exposed to at reporting date:

	Change in Variable	Effect on Change in Net Assets	
	+/-	2013	2012
		$'000	$'000
Interest rate risk	+2%	(8,627)	(8,730)
Interest rate risk	-2%	8,627	8,730

The Scheme's activities, through LGPF, also expose it to the financial risk of changes in interest rates. Floating rate instruments expose this Fund to cash flow risk, whereas fixed interest rate risk instruments expose the Fund to fair value risk. LGSS Pty Ltd monitors LGPF's exposure to interest rate risk on a regular basis.

14. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

Under interest rate swap contracts, the Trustee agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable LGPF to mitigate the risk of changing interest rates on debt held. The average interest rate is based on the outstanding balances at the start of the financial year. The maturity of the loan and related swap contracts, that have been entered into to reduce entity's exposure to adverse changes in interest rates is not in line. As a result, the Scheme is exposed to interest rate risk as the notional values of interest rate swap contracts are higher that the bank loan balance.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at balance sheet date:

Outstanding Floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount $'000		Fair value amount $'000	
	2013	2012	2013	2012	2013	2012
Loan	5.01%	6.48%	65,000	65,000	65,000	65,000
Interest rate swap: 2 to 5 years	5.55%	5.50%	65,000	65,000	(2,479)	(3,644)

The interest rate swap contracts settle on a quarterly basis. The floating rate on the interest rate swap is the Australian 90 days BBSY. LGPF will settle the difference between the fixed and floating interest rate on a net basis.

<u>Foreign Currency Risk Management</u>
The Scheme is exposed to foreign currency risk as a result of LIF's and LGPF's investment in financial instruments denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange rate contracts. The forward exchange rate contracts are designed to hedge an agreed percentage of its exposure to foreign currency for all international equities and 100% of all other international assets. The agreed percentage was 35% (2012: 35%) at balance sheet date.

The Trustee of LIF and LGPF uses a currency external overlay manager to manage their exposures to foreign currency risk. The Scheme's, LIF's, and LGPF's overall strategy to foreign currency risk management has not changed from the previous year.

14. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

Foreign currency sensitivity

The following table details the Scheme's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies via its investments in LIF and LGPF. 10% is the sensitivity rate used when reporting foreign currency risk internally to the Trustee and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in net assets available to pay benefits and liability for accrued benefits where the Australian Dollar weakens against the respective currency. For a strengthening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the increase in net assets and on the net assets available to pay benefits, and the balances below would be negative.

	Change in Variable	Effect on Change in Net Assets			
	+/-	USD Impact		JPY Impact	
		2013	2012	2013	2012
		$'000	$'000	$'000	$'000
Forex Risk	+10%	1,500	(1,023)	6	(102)
Forex Risk	-10%	(1,500)	1,023	(6)	102

	Change in Variable	Effect on Change in Net Assets			
	+/-	EUR Impact		GBP Impact	
		2013	2012	2013	2012
		$'000	$'000	$'000	$'000
Forex Risk	+10%	29	(230)	50	86
Forex Risk	-10%	(29)	230	(50)	(86)

There have been no significant changes to the foreign currency sensitivity from the prior year.

Other Market Risk

Market price risk is the risk that the value of the Scheme's investment portfolio will fluctuate as a result of changes in market prices.

The Scheme is exposed to market price risk through its investments in LIF and LGPF. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives. The Scheme's overall strategy to market price risk management has not changed from the previous year.

14. FINANCIAL RISK MANAGEMENT (continued)

(h) Market Risk (continued)

The following table illustrates the effect on changes in net assets and net assets available to pay benefits from possible changes in market risk that were reasonably possible based on the risk the Scheme was exposed to at reporting date. For a negative change in the variable there would be an equal and opposite impact on net assets and on the net assets available to pay benefits, and the balances below would be negative:

	Change in Variable	Effect on Change in Net Assets	
	+/-	2013	2012
		$'000	$'000
Equity Price Risk	+10%	238,918	180,129
Equity Price Risk	-10%	(238,918)	(180,129)

There have been no changes to the equity price or price sensitivity from the prior year.

(i) Classification of Financial Instruments under the Fair Value Hierarchy

The Scheme has adopted the amendments to AASB 7, effective 1 July 2009. AASB 7 requires the classification of financial instruments at fair value (net market value) determined by reference to the source of inputs used to derive the fair value. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2013	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Unlisted Securities and Trusts	-	2,574,829	348,791	2,923,620
Total	-	**2,574,829**	**348,791**	**2,923,620**

30 June 2012	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Unlisted Securities and Trusts	-	2,278,038	370,277	2,648,315
Total	-	**2,278,038**	**370,277**	**2,648,315**

There were no transfers between level 1 and 2 in the period.

The Scheme has recorded its investment in LIF as level 2 asset due to it being an unlisted unit trust and it not meeting the level 1 requirement to be actively traded. The Scheme can redeem or purchase units in LIF on a weekly basis.

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting period.

14. FINANCIAL RISK MANAGEMENT (continued)

(i) Classification of Financial Instruments under the Fair Value Hierarchy (continued)

30 June 2013	**Total**
	$'000
Opening balance	370,277
Purchases/Applications	2,609
Sales/Redemptions	(63,777)
Transfers in/out level 3	-
Total gains/(losses)	39,682
Closing balance	**348,791**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	39,682

30 June 2012	**Total**
	$'000
Opening balance	401,149
Purchases/Applications	2,250
Sales/Redemptions	(43,897)
Transfers in/out level 3	-
Total gains/(losses)	10,775
Closing balance	**370,277**
Total gains/(losses) recognised in the Statement of changes in Net Assets for assets held at the end of the year	10,775

15. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

Local Government Financial Services Pty Limited (LGFS), a subsidiary of the Scheme, has been involved in a number of legal actions in the Supreme Court and Federal Court of Australia. On 5 November 2012, Justice Jagot of the Federal Court handed down judgement in three sets of proceedings and held that LGFS, ABN Amro and Standard and Poors (S&P) were liable for the losses sustained by 13 councils arising from the sale and purchase of a structured financial product known as Rembrandt 2006-3 constant proportion debt obligation ("Rembrandt"). Each of LGFS (who sold Rembrandt to the councils), ABN Amro (who structured and issued Rembrandt) and S&P (who rated Rembrandt AAA) were found to be liable to the councils for 33⅓ % of their total loss being $15,864,570. LGFS also brought claim against ABN Amro and S&P for loss suffered as a result of its own investment in Rembrandt for the amount of $15,970,185 as well as for indemnity by its insurer for any liability it had to the councils. Both these claims by LGFS were wholly successful.

LGFS has settled its liability with the councils. ABN Amro and S&P have settled their claims with LGFS.

ABN Amro and S&P intend to appeal the court decision.

15. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (continued)

There will be no liability in relation to the results of the appeal where the insurer fully indemnifies LGFS. However, in the event that the claim exceeds the level of insurance cover against loss and LGFS is not successful in a counter claim, LGFS may be exposed to a liability. The directors intend to defend this case vigorously and believe it is too early to identify the outcome.

At the date of signing the financial statements, there remains uncertainty as to what the likely outcome of the appeal will be.

16. SUBSIDIARIES

Name of Entity	2013 Ownership Interest %	2012 Ownership Interest %
Parent Entity		
Local Government Superannuation Scheme Pool B		
Subsidiaries		
Local Government Financial Services Pty Limited	100%	100%
LG Diversified Trust	100%	100%
Local Government Property Fund	53%	59%

Although the Scheme has a controlling interest in Local Government Financial Services Pty Limited and LG Diversified Trust, consolidated accounts have not been prepared because the net asset values of these investments are not material to the Scheme.

The Scheme does not have a controlling interest in Local Government Property Trust and Local Investment Fund in terms of the requirements of AASB 10. Although the Scheme is subject to variable returns from its investments, the Scheme does not have power over them (ie. no control) and therefore, they are not consolidated, consistent with the requirements of AASB 10.

All of the above investments are disclosed at net asset values in the Scheme's accounts. Details on the holdings and transactions with these entities are disclosed in Note 10.

17. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact on the financial position of the Scheme as disclosed in the Statement of Financial Position as at 30 June 2013 or on the results for the year ended on that date.

Deloitte.

Deloitte Touche Tohmatsu
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Report by the Independent Approved Auditor to the members of Local Government Superannuation Scheme Pool B (ABN: 28 901 371 321)

I have audited the financial statements of Local Government Superannuation Scheme Pool B for the year ended 30 June 2013 as set out on pages 4 to 29 attached.

Trustee's responsibility for the financial statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Local Government Superannuation Scheme Pool B.

My audit has been conducted in accordance with Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Opinion

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Local Government Superannuation Scheme Pool B as at 30 June 2013 and the changes in net assets for the year ended 30 June 2013.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Frances Borg
Partner
Chartered Accountants
Sydney, 30 October 2013

Appendix – Actuarial Summary

Actuary's Report for the purposes of Australian Accounting Standard AAS25 and Actuary's Statement for the purposes of the Superannuation Industry (Supervision) Regulations

A. SUMMARY OF ACTUARY'S REPORT

The effective date of the most recent valuation Divisions B, C and D of the Local Government Superannuation Scheme was 30 June 2012 covering the three year period to that date. The valuation was undertaken by Mr M A Stevenson, Fellow of the Institute of Actuaries of Australia, on behalf of Mercer (Australia) Pty Ltd and the results are set out in a report dated February 2013. A summary of this report follows:

(i) As at 30 June 2012, the net realisable value of the assets of the Plan, based on audited information supplied by the Trustee, amounted to $2,737,768,000. This is also the value of assets used in determining the recommended contribution rate.

(ii) The liability in respect of pensioners, postponed retirements or deferred benefits for former members or dependants is $694,134,000.

(iii) The present value of accrued benefits as at 30 June 2012 for the purpose of Australian Accounting Standard AAS25 was $3,107,137,000. This amount also constitutes the "value of the liabilities in respect of accrued benefits" as defined in Division 9.5 of the Superannuation Industry (Supervision) Regulations, subject to a minimum of the amount of the vested benefits (on an individual member basis). A summary of the method of attributing benefits to past membership is set out in Section C(i) below. The accrued benefits have been valued using the same assumptions as were adopted for the actuarial valuation. A summary of these assumptions is set out in Section C(ii) below.

(iv) The total as at 30 June 2012 of members' vested benefits for the purpose of Australian Accounting Standard AAS25 (ie voluntary resignation benefits, or early retirement benefits if eligible as of right), amounted to $2,677,462,000.

(v) The value of vested benefits were exceeded by the Scheme's assets. The present value of the accrued benefits was less than the Scheme's assets. The ratios of the assets to these totals are as follows:

Present value of accrued benefits	88%
Vested benefits	102%

(vi) The present value of accrued benefits has been calculated in a manner consistent with the Institute of Actuaries of Australia's Professional Standards and Guidance Note 454.

(vii) The actuarial valuation was carried out using the aggregate method under which a contribution rate sufficient to fund the total benefits over the working life-time of existing members is calculated. The Actuary recommended that the employers make contributions as set out below. The recommendation is appropriate until the results of the next actuarial valuation become available. This next valuation date should be no later than 30 June 2015. At that time the rate of Employer contributions will be reviewed.

The recommended contribution rates are:

Division B	1.9 times member contribution
Division C	2.5% of salary
Division D	1.64 times member contributions

With additional contributions over varying terms depending on the funded position of the individual employer sub funds. The additional contributions are assessed annually.

B. ACTUARY'S STATEMENT

I have conducted an actuarial valuation of the Local Government Superannuation Scheme as at 30 June 2012. The valuation was based on the following membership as at 30 June 2012:

	Div B	Div C	Div D
Contributors			
Number	7,356	7,410	54
Salaries ($'000)	$498,628,000	$504,174,000	$5,547,000
Pensioners			
Number	537		87
Annual Pension ($)	$8,348,793		$3,299,871
Deferred Members - Number	3,558	3,537	32

Various checks were carried out in relation to the data and I believe the data used to be substantially correct. In my opinion:

- The value of assets of the Scheme was adequate to meet the liabilities of the Scheme in respect of vested benefits as at 30 June 2012. The Scheme was in a satisfactory financial condition at that date.

- Based on the assumptions and methods adopted for the valuation, all liabilities of the Scheme which might be expected to arise in the three years to 30 June 2015 and all benefits of the Scheme that can reasonably be anticipated to vest at 30 June 2015 in respect of current members will in the normal course of events be adequately covered by the sum of:

  (i) the assets of the Scheme at the valuation date;

  (ii) contributions by members in accordance with the Trust Deed;

(iii) contributions by employers at the rates recommended in section A(vii) of this summary;

(iv) investment earnings on the above.

- For the purposes of SIS Regulation 9.31(1)(ba), there is a high degree of probability that the Scheme will be able to pay pension benefits as required under the Scheme's governing rules.

- Since the Scheme is used for Superannuation Guarantee purposes and is subject to the funding and solvency provisions of Division 9.3 of the SIS Regulations:

- All funding and solvency certificates required under Division 9.3 have been obtained for the period from the date of the last valuation to 30 June 2012; and

- I expect to be able to certify the solvency of the Scheme in any funding and solvency certificate that may be required under the Regulations during the period from 1 July 2012 to the next actuarial valuation.

- Taking into account the circumstances of the Scheme, the details of the membership and assets, the benefit structure of the Scheme and the industry within which the employers operate, the assumptions used are appropriate in relation to the determination of the present value of accrued benefits for the purposes of the SIS Regulations and AAS25.

M A Stevenson
Fellow of the Institute of Actuaries of Australia
Mercer Consulting (Australia) Pty Ltd
201 Sussex Street
SYDNEY NSW 2000

Date: 21 February 2013

C SUMMARY OF METHOD AND ASSUMPTIONS

(i) Summary of Method of Attributing Benefits to Past Membership

The past membership component of all benefits payable in future from the Scheme in respect of the current membership, are projected forward allowing for future salary increases and then discounted back to the valuation date at the valuation rate of interest.

The past membership component for each type of benefit is:

Fully Accrued Benefits: (current pensions, deferred members, members' accumulated contributions benefit)	100% past service.
Division B (employer component):	based on the proportion a member's actual accrued benefit points as at the valuation date bears to accrued points at date of exit.
Division C and D:	calculated by adjusting the total benefit in proportion to completed membership at the valuation date over membership at date of exit.

(ii) Summary of the Actuarial Assumptions

(a) Economic assumptions

Period	Investment Earnings (% pa)	Salary Inflation (% pa)	Consumer Price Index (% pa)
1 July 2012 onwards	7%	4%	2.5%

For the purpose of determining the present value of accrued benefits in accordance with Accounting Standard AAS25 (as shown in A(iii) above) a market-determined, risk-adjusted discount rate of 7% per annum was used. This rate is the weighted average of the rates shown above, weighted by the accrued benefit liabilities.

This discount rate represents the expected rate of return in the Scheme's assets. The weighted-average term of the accrued benefit liabilities is 8.7 years.

The assumptions used for AAS25 accounting purposes are the same as those used in the valuation for funding purposes.

(b) Promotional Salary Increases

Age related scale.

(c) Other Assumptions

Assumptions have been made regarding rates at which members will leave the Fund on account of retirement, death, disablement and resignation. These rates have been based on the Actuary's experience of the Scheme and of other similar funds.

(iii) Approach to Vested Benefits

The present value of accrued benefits determined using the above assumptions and methods is less than the total of members' vested benefits (ie. voluntary resignation benefits or early retirement benefits if eligible) in respect of a number of members of the Plan. If the minimum of vested benefits on an individual basis is used in determining the present value of accrued benefits for AAS25 purposes, then the value of accrued benefits in A(iii) alters to \$3,211,501,000 and the ratio of assets to the present value of accrued benefits becomes equal to 85%.

Consistent with the terminology of AAS25 "Accrued Benefits" means the actuarial or present value of accrued benefits.